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	Japan's 1986 ODA Figures Reflect Yen's Appreciation	1
	Exchange Market Stable After Volcker Resignation	3
	Financial Market Focus	5
	Japan Sets Course On Iran-Iraq War	8
IN THIS ISSUE:	Takeshita's Lucky Number: 118	10
	Fallout From Toshiba Machine Incident Limited, So Far	11
	Japan Ratifies MIGA Convention	12
	The Bilateral Trade Account: Light At The End Of The Tunnel?	13
	Notes: Senate Trade Bill	16

Japan's 1986 ODA Figures Reflect Yen's Appreciation

The value of Tokyo's official development assistance soared in 1986, increasing by 48.4 percent (see Table). The hike is in sharp contrast to 1985's results, when disbursements fell by 12.1 percent. Much of the change can be attributed to the sharp appreciation of the yen during the past year, however. The bulk of Japan's foreign assistance is yen-denominated, but the Development Assistance Committee of the Organization for Economic Cooperation and Development calculates ODA in dollar terms. In 1985 the exchange rate averaged Y238.54=\$1.00; last year it was Y168.52 -- 41.6 percent higher.

Net Flow of Financial Resources from Japan to Developing Countries and Multilateral Agencies, 1982-86

Type of Transaction	(in millions of dollars)					Percent Change 1985/86
	1982	1983	1984	1985	1986	
Official Development Assistance	\$3,023	\$3,761	\$4,319	\$3,797	\$5,634	48.4%
Change Over Previous Year	-4.7%	24.4%	14.8%	-12.1%	48.4%	
ODA/GNP Ratio	0.28%	0.33%	0.34%	0.29%	0.29%	
Bilateral Assistance	2,367	2,425	2,427	2,557	3,846	50.4
Grants	805	993	1,064	1,185	1,703	43.8
Capital Grant Assistance	412	535	543	636	855	34.3
Technical Assistance	393	458	521	549	849	54.7
Development Lending and Capital	1,562	1,432	1,363	1,372	2,143	56.2
Grants, Capital Subscription and Loans to Multilateral Agencies	656	1,336	1,891	1,240	1,788	44.2

Notes: 1. Net disbursement basis.

2. Due to rounding, the figures do not necessarily add up to the totals.

Source: Ministry of Foreign Affairs

Indeed, in yen terms the picture is somewhat different. Net ODA disbursements rose only 4.8 percent last year, with bilateral flows (which are disbursed primarily in yen) rising by 6.3 percent and multilateral flows (largely in dollars) by 1.9 percent. The ratio of ODA to gross national product was 0.29 percent -- exactly the same as in 1985. (The United Nations recommends that DAC members strive for a 0.7 percent ratio.)

The effect of the yen's rise bodes well for Tokyo's plans to disburse more than \$40 billion between 1986 and 1990 and to double the 1985 figure in calendar year 1990. Since the original time frame for this Third Medium-Term Target was seven years (to 1992), Tokyo estimated that an average annual 10.4 percent increase would be required. This may have been beyond the government's reach since in recent years fiscal austerity has limited Japan's budgetary ODA increases to approximately 7 percent.

Because of the yen's appreciation, however, doubling the 1985 ODA figure in seven years would have required only an approximate 5.5 percent average annual increase in outlays from now on. Japan's decision earlier this year to shorten the time frame allows the government to take advantage of the strong yen, make the target more ambitious and enhance the visibility of Tokyo's aid programs all at the same time. In order to disburse some \$7.6 billion in 1990, average annual increases of 8 percent will be necessary. This does not appear out of reach, given Tokyo's willingness to expand its aid flows by some 7 percent annually in yen terms and the fact that the exchange rate could easily jump higher than 1986's average -- at least in the foreseeable future.

Still, although the 1985 aid-doubling goal is virtually assured, it is not certain whether Tokyo will disburse the \$40 billion total also outlined in the Third Medium-Term Target. Even if Japan disburses \$7.6 billion in 1990 (assuming an 8 percent annual growth), the total for the 1986-90 period will only approximately add up to \$33 billion using 1986's exchange rate. Conversely, if Tokyo retains its 7 percent annual increase in ODA outlays, an average exchange rate of ¥135.7 would be needed to reach the \$40 billion mark.

In any case, Japanese officials remain committed to achieving the aims of the Third Medium-Term Target, especially in view of the strong publicity attending Tokyo's recently announced plan to recycle \$30 billion to the developing countries (see JEI Report No. 21B, June 5, 1987). To date the government has not estimated how much of this plan will be included in future ODA figures. They do stress, however, that Tokyo regards the two as separate concepts and expects to meet the five-year target irrespective of the \$30 billion initiative. Officials also point out that the recycling funds are aimed at middle-income countries. By contrast in recent years the government has pledged to concentrate more of its ODA funds on the neediest developing countries such as those in sub-Saharan Africa.

Eileen Marie Doherty

Exchange Market Stable After Volcker Resignation

Japanese investors reacted cautiously to the June 2 announcement that Paul Volcker would be leaving his post as chairman of the Federal Reserve Board. The departure of Mr. Volcker, who has been a dominant force in U.S. and

global economic policy in recent years, makes the future of U.S. monetary policy less certain. What concerns the Japanese, given their huge investment in U.S. securities, is whether Alan Greenspan, who was nominated to be the new chairman, will be as anxious to fight inflation and defend the dollar as his predecessor.

Like Mr. Volcker, Mr. Greenspan is an avowed inflation-fighter who believes that excessive growth of the money supply is the primary cause of inflation. But the financial markets are waiting to see whether he is willing to raise interest rates to promote the stability of prices and exchange rates when such a move might result in a recession. In addition, some analysts question whether Mr. Greenspan, who was chairman of President Ford's Council of Economic Advisers from 1974 to 1977, can control the Fed's seven-member board, which is dominated by supply-siders. And given his links to the Republican Party, some fear that he will be more interested in keeping interest rates low and spurring growth during next year's election campaign than in keeping inflation under control.

Satoshi Sumita, governor of the Bank of Japan, endorsed Mr. Greenspan's appointment. While terming Mr. Volcker's decision not to accept a third term as Fed chairman as regrettable, the Japanese official said he did not anticipate any changes in U.S. monetary policy. The financial markets agreed; after a sharp rise on June 3, the yen settled around the Y143=\$1.00 level, about 4 percent below the record high set in late April.

Prime Minister Yasuhiro Nakasone said last week that the yen appears to have finally stabilized, ending a 27-month climb that raised its value by 75 percent on a trade-weighted basis (see Table). One stabilizing factor was the announcement of a Y6 trillion (\$42.9 billion at Y140=\$1.00) stimulus package on May 29 that Tokyo hopes will boost economic growth to the 3.5 percent real rate projected by the government for FY 1987 (see JEI Report No. 21B, June 5, 1987). Faster growth will boost demand for imports, thus reducing the need for a further appreciation of the yen to lower Japan's trade surplus. Also contributing to exchange rate stability was the warning from the Ministry of Finance in mid-May intended to discourage speculators from selling dollars. In addition, an increase in the U.S.-Japan interest rate gap to more than 5 percentage points has increased Japanese demand for U.S. securities. According to Toyoo Gyohten of the Ministry of Finance, Japan's dollar-denominated foreign investments, which fell to only \$1 billion in March, rose sharply in May.

At the same time, an end to the U.S. policy of "talking down" the dollar has helped end its long slide. Washington's commitment to stabilizing the dollar is evidenced by its \$4.1 billion in market intervention in the February-April 1987 period, the largest amount in more than six years. Intervention by the United States, Japan, Canada and seven European countries totaled \$73 billion, of which about half went to support the dollar. Although the dollar fell 8.4 percent against the yen and 2.1 percent against the West German mark during that period, U.S. officials said the results were positive since the dollar might have fallen even more without intervention.

Although the major industrialized countries agree that current exchange rates are acceptable, many observers question how long the dollar will remain stable. There has been some improvement in the U.S. trade balance; in constant 1982 dollars, the trade deficit fell from an annual rate of \$163.3 billion in

the July-September 1986 quarter to \$134.2 billion in the first three months of 1987. But with most forecasts predicting that the trade deficit (in nominal terms) will still exceed \$100 billion in 1988, many financial analysts are betting that the dollar's decline will resume at some point.

Randall S. Jones

Changes in Yen Relative to Currencies of Major Trading Partners

<u>Currency of*</u>	<u>Share of Japan's Trade in 1986**</u>	<u>Percentage Change From End of February 1985 to June 8, 1987</u>
United States	32.6%	80.8%
Republic of Korea	4.7	76.1
China	4.6	137.4
West Germany	4.4	-1.9
Taiwan	3.7	43.8
Australia	3.6	80.8
Canada	3.1	75.5
Britain	3.0	20.4
Indonesia	3.0	172.0
Hong Kong	2.5	80.9
Saudi Arabia	2.4	89.7
United Arab Emirates	2.1	80.9
Singapore	1.8	68.8
Malaysia	1.7	74.4
Soviet Union	1.5	29.2
France	1.5	7.0
Switzerland	1.3	-4.2
Netherlands	1.1	-2.6
Thailand	1.0	65.9
Belgium	0.9	1.3
Trade-Weighted Average		75.1

*Since June 1987 inflation rates are not available, all percentage changes are calculated using nominal exchange rates. Admittedly, it is real, not nominal rates, that affect trade flows. For the countries listed above, though, changes in nominal exchange rates have closely paralleled changes in real rates.

**The top 20 trading partners listed above accounted for 80.6 percent of Japanese trade (exports plus imports) in 1986. The weighted average change in the exchange rate is based on 1985 and 1986 shares of trade.

Source: International Monetary Fund and The Wall Street Journal.

Financial Market Focus

Tokyo took the opportunity of the fifth follow-up meeting on the bilateral yen-dollar accord on May 27 to announce a new series of financial market changes. U.S. Assistant Treasury Secretary for International Affairs David

Mulford responded with praise for the new package as well as previous actions, but reiterated that much remains to be done. Toyoo Gyohten, vice minister of Finance, reviewed recent initiatives and reported the following plans:

- The Ministry of Finance will auction all 20-year bonds (Y2 trillion worth or \$14.2 billion at Y140=1.00 in FY 1987) beginning this fall, perhaps as early as October, and employ an "auction method of underwriting amount" to sell 20 percent of its 10-year bonds (approximately Y1.8 trillion or \$12.9 billion worth). The shift is intended to give foreign firms a better chance to garner a larger share of Japan's primary bond market than they are allotted under the current bidding syndicate system, which is dominated by domestic firms. Even though the syndicate raised foreign shares in April and allowed more foreign firms to join (see Table), the total allotted to foreigners is still less than 7 percent of any issue.

Japanese Bond Syndicate Shares of Foreign Securities Firms

(in percent of total)

<u>Firm</u>	<u>Prior to March 1987</u>	<u>After March 1987</u>
Salomon Brothers Inc.	0.07%	1.0%
S.G Warburg & Co.	0.07	0.5
Goldman Sachs (Japan) Corp.	0.07	0.5
Jardine Fleming Securities Ltd.	0.07	0.5
First Boston Securities Ltd.	0.07	0.5
Merrill Lynch International Bank Inc.	0.07	0.5
Morgan Stanley International Ltd.	0.07	0.5
Vicker de Costa (Holdings) Ltd.	0.07	0.3
Smith Barney & Co.	0.07	0.3
Kidder Peabody & Co.	0.07	0.1
Kleinwort Benson & Co.	0.07	0.1
W.I. Carr	0.07	0.1
DB Capital Markets Inc.	0.07	0.1
Drexel Burnham Lambert Inc.	0.07	0.1
Bache Securities Ltd.	0.07	0.069
Schroder Securities Ltd.	0.07	0.069
Hoare Govett	0.07	0.069
E.F. Hutton & Co.	0.0	0.069
SBCI Securities Ltd.	0.0	0.069
Shearson Lehman Brothers Inc.	0.0	0.069
UBS Phillips & Drew	0.0	0.069
Sogen Securities Ltd.	0.0	0.069
Dresdner-ABD	0.0	0.069

While the auction to be used for 20-year bonds is similar to the U.S. procedure, a non-competitive system will be used for 10-year bonds. According to MOF, syndicate members will submit tenders on the amount of bonds they wish to purchase, although an upper limit of 1 percent will be enforced to give foreign and small firms an equal chance. Since the bids are submitted immediately

before MOF and the syndicate agree on a final price, they can be expected to reflect closely the negotiated terms.

Reaction to the auction system has been mixed. Large Japanese and foreign firms approve of the change, but feel that the government should auction all bonds and let the market determine the price and allotment. Smaller firms are divided -- domestic firms oppose the move and foreign companies favor it. The change may hasten a shakeout of the government bond market as big firms use their deep pockets to oust smaller ones.

- The revolution in the securities industry is opening major opportunities for foreign firms. MOF announced June 3 that foreign banks will be allowed to apply for licenses to trade securities as long as applicants that already have banking entities in Japan work through an existing non-Japanese subsidiary that is not majority owned by a financial institution. This rule has led to some interesting tie-ups. Exxon Corp. will buy a 50 percent stake in BT Asia (Securities) Ltd., a Bankers Trust New York Corp. subsidiary; Manufacturers Hanover Corp. and Chrysler Corp. will operate through existing Asian subsidiaries; and J.P. Morgan & Co. Inc. and Bechtel Investments Inc. will establish a new joint venture. In addition, Chemical New York Corp. will apply under the guise of its Nassau-based joint venture, the Bank of New Providence. A securities license will allow the banks to deal directly with corporate and retail customers as well as trade on a more equal footing with domestic firms.

- In a related move, Mr. Gyohten announced that the Tokyo Stock Exchange will expand its membership by the end of this year, permitting successful applicants to begin trading as early as May 1988 if the new exchange's trading facilities are complete. The vice minister confirmed word that foreign firms would be given equal consideration, almost assuring that foreign membership will rise above the current level of six.

The announcement was particularly good news for Britain, which has repeatedly urged Tokyo to provide reciprocal opportunities. London had warned that retaliation might be necessary if Tokyo was not forthcoming. Chancellor of the Exchequer Nigel Lawson praised the decision, saying "We have made important progress in this financial field with the Japanese." Assistant Treasury Secretary Mulford's response was not nearly so exuberant, but he expressed satisfaction nonetheless.

- Confirming an advisory committee recommendation, Mr. Gyohten said that Japanese corporations would be allowed to issue commercial paper beginning in October. Under the proposed guidelines, about 170 blue-chip firms will be eligible to issue CP with a minimum denomination of ¥100 million (\$714,300) and a term of one to six months. Because commercial paper notes are usually unsecured, MOF has barred their use until now. The change will provide corporate managers with another short-term financing option as well as create a new financial market with great potential.

- MOF has also developed a timetable for full-fledged stock and index futures trading. If all goes well in the Tokyo bond futures market, the Osaka quasi-index market and trading by domestic firms in overseas financial futures (see JEI Report No. 20B, May 22, 1987), the rules will be relaxed in June 1988

for true stock indexes and in the fall of 1988 for currency futures markets. Investors will be better able to protect themselves against fluctuations by buying futures contracts.

- The minimum denomination for money market certificates will be lowered for a second time this year in October to ¥10 million (\$71,400), down from the ¥20 million (\$142,900) level set in April. The upper ceiling on the size of MMCs and certificates of deposit will be removed at the same time. Since April 1 the maximum term of MMCs has been two years.

- MOF and the Bank of Japan are also studying other changes, including the following: overhauling the short-term interbank markets to meet changing needs; introducing a new rating system for domestically issued bonds; examining the distinctions between the various types of financial institutions, such as trust banks and long-term credit banks, with an eye toward eliminating distortions (the elimination of distinctions, however, is not planned); emphasizing the use of electronic banking and services to eliminate backlogs and bottlenecks in the current paper-based system; and discussing capital adequacy standards with British and American banking authorities.

- To help the average investor deal with this explosion of new instruments, MOF granted investment advisory licenses to 56 firms at the end of May, including 17 foreign companies such as Baring International Investment Management Ltd. and Warburg Investment Management Ltd. This field had been the exclusive preserve of trust banks and insurance companies but now includes subsidiaries of 14 securities companies, 12 national commercial banks and two long-term credit banks. MOF is accepting applications for a second group of advisory firms, with priority to applications from companies affiliated with trust banks, regional banks and applicants that were not accepted the first time around. Many companies in the first group have been operating since June 1; MOF expects to announce the second group in September.

While the changes in the bond sale system and access to the Japanese securities market address short-term pressures, the continued edging toward wider use of market-determined interest rates, particularly for deposits, represents the most fundamental change in the Japanese financial system. Progress toward a fully market-determined system has been gradual but steady -- a pace that the Finance Ministry seems likely to maintain.

Jon Choy

Japan Sets Course On Iran-Iraq War

In response to rising tensions in the strategic Persian Gulf, Prime Minister Yasuhiro Nakasone has been seeking ways to expand Japan's security role in support of the United States. The May attack on the frigate USS Stark, Iran's preparations to deploy shore-based anti-ship missiles, and Washington's plans to protect oil tankers have sharply increased tensions in the region where Japan bought nearly 70 percent of its crude oil last year. Mr. Nakasone must carefully navigate between domestic and foreign policy considerations as he seeks to pilot Japan through these dangerous waters.

The diversification of oil supplies has been a central tenet of Japan's energy policy since the first oil shock in the early 1970s. Although Japanese companies have played major roles in developing oil resources in China and Southeast Asia, most of the crude oil Japan imports is still pumped from Middle Eastern wells (see Table). Japanese oil traders have demonstrated their sophistication in recent years by redistributing purchase contracts among competing Middle East suppliers in order to maximize their bargaining leverage and win the most favorable terms. At home, the government has achieved its goal of creating a 90-day stockpile of oil and has set its sights on raising this to a 140-day supply. Nevertheless, Japan remains highly vulnerable to an extended interruption of oil shipments from the Middle East.

Japan's Crude Oil Imports by Area

(in millions of barrels and share of total)

	<u>1983</u>		<u>1984</u>		<u>1985</u>		<u>1986</u>	
	<u>Amount</u>	<u>Share</u>	<u>Amount</u>	<u>Share</u>	<u>Amount</u>	<u>Share</u>	<u>Amount</u>	<u>Share</u>
Middle East	922	70.5%	947	70.1%	878	70.4%	842	68.8%
Saudi Arabia	368	28.2	366	27.1	217	17.4	162	13.2
United Arab Emirates	197	15.1	206	15.3	266	21.3	268	21.9
Iran	144	11.0	94	7.0	90	7.2	81	6.6
Iraq	3	0.2	5	0.4	26	2.1	59	4.8
Southeast and Far East Asia	237	18.1	248	13.4	216	17.3	214	17.5
North and South America	62	4.7	65	4.8	56	4.5	74	6.1
United Kingdom	0	--	0	--	0	--	1	0.1
Africa	16	1.2	9	0.7	16	1.3	7	0.6
Communist Bloc	69	5.3	81	6.0	82	6.6	83	6.8
Total	1,307	100.0	1,350	100.0	1,247	100.0	1,223	100.0

Source: Petroleum Association of Japan

New attention has been focused on the long-running Iran-Iraq war as a result of Washington's decision to protect Kuwaiti oil tankers moving through the Persian Gulf and Iran's announcement that it would deploy anti-ship missiles in the critical Straits of Hormuz. Washington has pointedly reminded Japan and Europe that it will undertake to provide the costly protection even though the United States receives only about 10 percent of its imported oil from Persian Gulf ports. The fact that some European nations depend even more heavily on the area for oil than Japan has prompted congressional calls for more allied support.

At June 4 press conferences, Mr. Nakasone was receptive to the idea of an increased Japanese role in the area but stressed that "peaceful and nonmilitary efforts" would remain the central pillar of foreign policy. "We should make further efforts to stop the Iran-Iraq conflict," the prime minister said, "and take advantage of the unique position Japan has enjoyed in having close communications with both governments." It would be legally and politically unacceptable (and physically difficult) for Japan to send military forces to the Gulf to assist U.S. vessels. Mr. Nakasone hinted that Japan would be willing to help defray the costs of maintaining a multinational shipping defense force but would find financial aid to solo American efforts difficult to support. "We are fully aware that Japan is one of the major beneficiaries" of free access to the Gulf, Mr. Nakasone said.

Japan's public and private sector have tried to build friendly relations with both sides through investment as well as trade. From its position as the world's leading creditor nation, Japan is besieged by Arab requests for joint projects and increased investment. Although some projects have proved highly successful, others have been somewhat disappointing. The giant Bandar Khomeini petrochemical plant, for example, remains a sensitive issue between Tokyo and Tehran. Foreign Minister Tadashi Kuranari will stop in Tehran on his way home from the Venice summit conference to open a more vigorous diplomatic offensive. Previous Japanese efforts to mediate the conflict have been rebuffed, and there is no lack of criticism of a stronger U.S. military posture in the Gulf, presenting major obstacles to Messrs. Nakasone and Kuranari.

Jon Choy

Takeshita's Lucky Number: 118

The vast majority of the Tanaka faction indicated its tentative support for Noboru Takeshita as the faction's leader and candidate for president of the Liberal Democratic Party when a strong turnout at a rally June 3 recorded 118 attendees. The straw poll came in the aftermath of Susumu Nikaido's declaration on May 14 of his bid for party president as the officially endorsed candidate of the faction (see JEI Report No. 20B, May 22, 1987).

The total of 118 members (of the faction's 141) was a larger number than many anticipated. Observers had said that Mr. Takeshita could count on at least 80 members if he tried to wrest control from Mr. Nikaido, who has been the faction's acting head since the illness of Kakuei Tanaka over two years ago. Mr. Nikaido attempted to force a vote of confidence in his leadership by pre-empting Mr. Takeshita and announcing his candidacy for the party presidency well in advance of the other three presumed candidates -- Mr. Takeshita, Finance Minister Kiichi Miyazawa and LDP executive council chairman Shintaro Abe. The move may have backfired by forcing faction members to line up behind Mr. Takeshita instead of supporting Mr. Nikaido's bid.

In fact, Mr. Nikaido's political stock in the party has been eroding for years, as indicated by the strong support for his rival, who is 15 years younger. While not all 118 members may side with Mr. Takeshita should he decide to form his own faction using the Tanaka group as a base -- observers suggest that the support of as many as 40 of the members is "soft" -- it nevertheless undercuts Mr. Nikaido's already dubious bid for the party presidency

Still, MIGA is far from ready to begin its activities. The United States, which is to provide 20.5 percent of the agency's capital, has not indicated whether it will ratify the convention. And while it is possible that MIGA could operate without this country, it is unlikely. World Bank officials believe that a number of signatory nations are waiting to follow this country's lead before ratifying the convention.

Although the White House has endorsed the agency and the House of Representatives has included authorization for MIGA in two separate bills, the Senate is wavering. Trade-conscious legislators -- especially those representing textile manufacturers -- worry that the agency may harm their constituents by facilitating foreign investment in ventures that compete directly with industries in their home states. These concerns were apparent as the Senate Foreign Relations Committee approved its portion of the omnibus trade bill (S 490); the MIGA authorization included severe restrictions intended to safeguard domestic jobs. According to White House officials, the Senate provision "effectively kills MIGA." Still, the Senate trade debate has just begun and Sen. Dan Evans (R, Wash.) has vowed to fight to change the MIGA portion of the bill either during the floor debate or in a House-Senate conference committee.

The target ratification deadline established under the convention is October 11, 1987. If Congress intends to act within the context of the trade bill, it appears unlikely that it will meet the deadline. More important, however, is the question of whether this country will ultimately ratify the convention in terms that will make it possible for the United States to participate in the agency. If not, MIGA may fall by the wayside. In that case, the European Community has indicated that it may establish a similar regional organization. Treasury Department officials do not rule out the possibility that Japan would join forces with the EC in this regard. This is a scenario the administration hopes to avoid, stressing that Congress is missing the forest for the trees. In the long run the gains generated by greater U.S. willingness to invest abroad could easily outweigh the benefits gained from protecting some domestic sectoral interests.

Eileen Marie Doherty

The Bilateral Trade Account: Light At The End Of The Tunnel?

Much to the relief of economic policymakers in Tokyo and Washington alike, the U.S.-Japan trade numbers finally seem to be headed in the right direction. For the first time since the bilateral trade deficit took on a life of its own in 1983, the red ink subsided on a year-to-year basis in 1987's opening quarter, dipping to \$13.6 billion (imports on a Customs value basis) from \$14.4 billion in the January-March 1986 period (or to \$14.4 billion from \$15.3 billion with imports valued c.i.f.). While one quarter of data hardly constitutes conclusive evidence of the long-awaited turnaround in the deficit, three developments suggest that the worst may in fact be over.

For starters, U.S. exports to Japan scaled the twin obstacles of flat Japanese demand and lower agricultural and industrial input prices in expanding 6.9 percent to \$6 billion -- a feat obviously attributable to the competitive benefits of the weaker dollar. At the same time, the 2.1 percent decline in American purchases of Japanese-made products to \$19.5 billion understated the drop in inflation-adjusted imports since the 9.1 percent increase in the yen's

U.S. Exports to Japan

(in millions of dollars, f.a.s. value basis)

	January- March 1986	January- March 1987	Percent Change
<u>Total Exports</u>	<u>\$5,573.6</u>	<u>\$5,958.6</u>	<u>6.9%</u>
<u>Industrial Supplies</u>	<u>2,090.6</u>	<u>2,269.0</u>	<u>8.5</u>
Bituminous Coal	158.3	140.0	-11.6
Petroleum Products	189.2	151.5	-19.9
Natural Gas	42.0	33.4	-20.5
Logs and Lumber	235.4	331.3	40.7
Paper Base Stocks	118.4	160.9	35.9
Paper and Paper Products	79.0	91.9	16.3
Organic Chemicals	190.8	209.4	9.7
Inorganic Chemicals	200.9	152.9	-23.9
Plastics and Synthetic Resin Compounds	77.2	87.1	12.8
Manufactured Fertilizers and Insecticides	91.7	94.6	3.2
Steel Scrap	63.1	8.5	-86.5
Nonferrous Ores and Scrap	134.9	107.4	-20.4
Nonferrous Metals	61.7	75.6	22.5
Textiles	27.0	33.0	22.2
Raw Cotton	54.3	99.4	83.1
Hides and Skins	87.3	70.9	-18.8
Leaf Tobacco	23.6	100.7	326.7
<u>Capital Goods</u>	<u>1,476.2</u>	<u>1,510.0</u>	<u>2.3</u>
Nonelectric Machinery	844.6	888.9	5.2
Data Processing Equipment and Parts	335.4	350.1	4.4
Measuring, Testing and Control Instruments	105.5	120.8	14.5
Laboratory Testing and Control Instruments	28.6	30.1	5.2
Scientific, Professional and Medical Equipment	77.7	100.2	29.0
Oil and Gas Field Equipment	23.9	2.1	-91.2
Metalworking Equipment	39.0	30.0	-23.1
Service Industry Equipment	31.8	40.2	26.4
Electric Machinery	224.4	243.3	8.4
Generators and Transformers	19.2	16.4	-14.6
Broadcast and Communications Equipment	88.7	119.8	35.1
Telephonic and Other Electric Equipment	116.5	107.1	-8.1
Transportation Equipment	407.2	377.8	-7.2
Civilian Aircraft	159.7	107.7	-32.6
Civilian Aircraft Engines and Parts	164.1	171.9	4.8
Automotive Parts	53.5	57.9	8.2
<u>Food and Feed</u>	<u>1,238.8</u>	<u>1,128.9</u>	<u>-8.9</u>
Corn	303.0	200.2	-33.9
Sorghum	77.0	54.9	-28.7
Soybeans	248.7	186.4	-25.1
Wheat	109.5	93.2	-14.9

Fruits and Vegetables	126.5	157.6	24.6
Meat and Meat Products	172.0	178.5	3.8
Fish and Fish Products	92.1	139.7	51.7
<u>Consumer Goods</u>	<u>385.4</u>	<u>521.7</u>	<u>35.4</u>
Pharmaceuticals	167.5	171.4	2.3
Toys and Sporting Goods	20.5	29.9	45.9
Cigarettes	26.2	74.9	185.9

U.S. Imports from Japan

(in millions of dollars, Customs value basis)

	January- March 1986	January- March 1987	Percent Change
<u>Total Imports</u>	<u>\$19,947.6</u>	<u>\$19,529.2</u>	<u>-2.1%</u>
<u>Automotive Products</u>	<u>7,370.7</u>	<u>7,748.1</u>	<u>5.1</u>
Cars	4,415.2	4,417.5	0.1
Trucks	1,463.8	1,468.5	0.3
Automotive Parts	1,486.2	1,861.3	25.2
<u>Capital Goods</u>	<u>6,381.3</u>	<u>6,626.1</u>	<u>3.8</u>
Nonelectric Machinery	4,364.1	4,537.4	4.0
Business Machines	1,990.3	2,187.4	9.9
Metalworking Machinery	334.4	334.2	-0.1
Agricultural Machinery	146.5	148.3	1.2
Specialized Industrial Machinery	370.3	416.0	12.3
Scientific, Professional and Medical Equipment	215.0	209.3	-2.7
Electric Machinery	1,878.6	1,926.2	2.5
Transportation Equipment	138.6	162.5	17.2
<u>Consumer Goods</u>	<u>3,970.5</u>	<u>3,053.5</u>	<u>-23.1</u>
Video and Audio Recorders and Players and Stereo Equipment	1,452.0	885.7	-39.0
Television Sets	228.7	173.4	-24.2
Radio Receivers	63.1	57.2	-9.4
Tableware and Glassware	119.4	100.5	-15.8
Metal Cookware and Cutlery	123.7	106.2	-14.1
Photographic and Optical Goods	280.5	244.5	-12.8
Clocks and Watches	108.8	115.7	6.3
Toys and Sporting Goods	130.0	141.5	8.8
Motorcycles and Parts	342.4	203.9	-40.4
Clothing	138.3	98.2	-29.0
<u>Intermediate Goods</u>	<u>1,929.2</u>	<u>1,808.0</u>	<u>-6.3</u>
Steel Mill Products	740.5	539.1	-27.2
Nonferrous Metals	138.2	113.2	-18.1
Organic Chemicals	177.9	210.7	18.4
Textiles	223.7	205.9	-8.0

value during the January-March quarter, coming on top of a 57.8 percent jump over the course of 1985 and 1986, forced Japanese manufacturers to pass on more of the currency's appreciation. Moreover, after a five-year break, imports reverted to their historical pattern of contracting in the first three months of a new year after peaking during the final quarter of the previous year, this time by 7.6 percent.

The dip in January-March 1987 imports, which occurred against the backdrop of still-rising overall U.S. purchases from abroad, was the product of some familiar factors, including another cutback in steel mill products. But there were also a number of surprises. Heading the list: flat imports of cars and trucks, 1986's pacesetters, as lower volume (down 11.9 percent for cars and 5.6 percent for trucks) canceled out the effects of higher prices. The biggest damper on imports, though, was the steep drop in purchases of videocassette recorders, which were hit by a pause in the market.

Together with an assist from the slow-growing U.S. economy, the yen's appreciation should continue to cut into imports from Japan for the rest of this year. The outlook for exports is a toss-up, however. On the plus side, sales of capital goods expanded in 1987's first quarter even though aircraft deliveries were down. Moreover, consumer goods exports turned in a strong performance, as did most of the manufactured products in the industrial supplies category and the high value-added items in the food and feed group. The question at this point is whether the weaker dollar will continue to enable U.S. exporters of manufactured goods to buck the dampening effects of sluggish growth in Japan. The answer, it goes without saying, will determine whether the 1987 bilateral trade deficit comes in far enough below 1986's number to have a major political impact in the United States.

Susan MacKnight

Notes

Senate Trade Bill - The "fast track" that the Senate leadership promised for its trade bill has detoured a bit in recent weeks as other events took precedence. Partisan wrangling over the federal budget slowed floor action, and committee markups were postponed since several legislators, including Governmental Affairs Committee chairman John Glenn (D, Ohio), were in the Persian Gulf. This does not mean that the trade bill will be permanently pushed to the back burner, however. The most recent rumor on Capitol Hill is that floor consideration will begin during the week of June 15 -- whether or not all committees have completed their portions of the bill. This should not pose a problem to most of the committees involved, although there is some question as to whether the Commerce, Science and Transportation Committee, which is chaired by hard-liner Ernest Hollings (D, S.C.), will approve legislation before the cutoff date.

The views expressed in this report are those of the authors and do not necessarily represent those of the Japan Economic Institute.